Northern Rivers Capital Management Inc.
Royal Bank Plaza
North Tower, Suite 2000
200 Bay Street, PO Box 66
Toronto, Ontario
M5J 2J2 Canada

Tel: 416.597.1226
Fax: 416.597.8926

July 14, 2009

Dear Partners and Friends:

Equity indices were mostly flat around the world in June. The Northern Rivers Innovation Fund LP (the Innovation Fund) and the Northern Rivers Innovation RSP Fund (RSP Fund) finished the quarter strongly, posting June returns of +7.76% and +4.26% respectively. An important factor in the difference between the Innovation Fund and RSP Fund returns is that the weightings for Neptune and Webtech are significantly higher in the Innovation Fund, and both had strong months (particularly Neptune, up 23.5% in June).

	Average Annual Returns to June 30, 2009*							
	2009 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**
Northern Rivers Innovation Fund LP	**24.28%**	**7.76%**	**29.35%**	**24.28%**	**-56.31%**	**-16.64%**	**0.42%**	**11.18%**
Northern Rivers Innovation RSP Fund	**19.37%**	**4.26%**	**24.86%**	**19.37%**	**-55.53%**	**-16.00%**	**-1.26%**	**-1.97%**

**Northern Rivers Innovation Fund LP inception date: May 8, 2001.
Northern Rivers Innovation RSP Fund inception date: March 1, 2004.

The base case still appears intact

Nothing has transpired so far to change my view that the US economy will bottom in Q3 or Q4 of this year, and we will see returns of between -10% and +10% in the US equity markets in 2009. The week ahead (July 13-17) is critical for the near-term performance of the markets: many S&P500 companies are reporting, including many of the most important financials and banks. My sense is that this week will tell us whether the next stop for the S&P500 is 800 or 950. Either way—unless we are truly engulfed in a Great Depression-like catastrophe—the base case still looks reasonable, and I would expect our core positions to all be higher between now and the end of the year if the base case is correct.

The private portion of the portfolio is the focus of this letter

The fundamentals in the core positions have all continued to improve, in some cases dramatically (as laid out regarding Neptune and Webtech in the last letter); I expect to be able to write about significant new developments for all of them by the end of the summer (hopefully sooner!) In the meantime, I thought I would take this opportunity to re-visit the portion of the portfolio comprised of private companies. Back in the February 19, 2009 letter, I wrote brief paragraphs on seven private companies in the Innovation Fund that at the time represented about 20% of the fund. I will re-visit them here in the same order as in that letter:

1) I continue to be very excited about the future of Trilliant, a company in the “smart metering” space that is in the sweet-spot of Obama’s “smart grid” portion of the fiscal stimulus package. The delays in getting the funds flowing from the US federal government towards “smart grid” projects means that Trilliant is unlikely to meet their original expectation of $130 million revenue for 2009, but it should still do over $100 million in 2009, making it the largest of the private companies in the Innovation Fund and RSP Fund. Once those Obama funds start flowing, I would expect this to be a catalyst for a very successful IPO in late 2009 or the first half of 2010.

2) eASIC is gaining more and more visibility in design wins and commercial products in a wide cross-section of industries with its disruptive semiconductor platform technology. I continue to hear from a number of my industry contacts that they are seeing eASIC’s technology incorporated in more and more projects, and they appear to share my belief that this is a potentially industry-transforming technology for wide swaths of the FPGA, ASIC and ASSP markets.

3) Aimetis, the company in the video surveillance analysis area, continues to make progress with wins around the globe. I was excited to hear that in the retail space, use of their analytics appears to be expanding beyond just theft prevention, and into using consumer behaviour to help shape merchandising decisions. This increases the ROI for Aimetis’ software, and increases the chance of a major, company-transforming win in the next six months. It was also gratifying to be told last week that a term sheet Aimetis just received is at a valuation materially above where we are currently carrying the shares.

4) Reddwerks is the company in the warehouse “pick systems” space discussed in the February 19 letter. In that letter, I wrote about customer wins with two of the largest operators of warehouses in the world (including a Warren Buffett company with $25 billion in revenue). The relationships with these two companies have deepened since then, and Reddwerks has increased visibility on accelerating adoption by those two companies in the coming years. It also appears that they have just won a deal with an enormous consumer electronics retailer. With these three developments alone, the company now has good visibility to grow to $25 million in revenue in 2010, from $15 million in revenue in 2009. That kind of growth in this kind of recession is truly rare.

5) The “innovative consumer products company” I wrote about in the February 19 letter has also made some great strides. With respect to the financing I referred to: the company finally landed a $6.5 million financing on terms that easily support our current price. On the business development side, they launched a new product in March that is seeing dramatic acceptance in the market. One of the great things about this new product is that it is consumed rapidly by users (like soap, except faster), meaning that inventory turns are high, adding to the profitability of the product, and the company as a whole.

6) Nerium, the only biotech company in the private portion of the funds, was able in the June quarter to continue raising money at the same price we invested almost two years ago. An article on their molecules has been accepted for publication in the very prestigious Journal

of Molecular Cancer Therapeutics. Once it is published (likely in the August issue), the company should be able to raise money at a higher valuation.

7) The company that experienced a “dramatic change of fortune” is Echoworx, a company in the e-mail security space. I am expecting to see this company acquired by its distribution partner or a competitor in the next 6-12 months.

So, everything appears to be progressing in the right direction for the seven private companies I wrote about in the February letter. For some of them, the progress is faster than expected, and for others it is slower than expected, but the important thing is that all of them have moved forward, whether on the financing front or business development front, or both—and that in itself is an achievement in the context of the current “Great Recession” that the United States is currently experiencing.

On the bad news side of the ledger in the private portion of the portfolios: since January 1, we have effectively written two companies completely off, and have written down three companies by 50% (or more) relative to their December 31 prices. (The “glass half full” perspective on these decisions is that these write downs and write offs are already reflected in the June 30 NAV i.e., we have now already taken the hit from those weaker companies.)

On the good news side of the ledger (in addition to the solid updates on the seven companies above):

1) One of our private companies is exceptionally close to becoming public (via an RTO), and the shell company stock is trading above where we were carrying the private company for December 31;
2) Another of our privates just filed a preliminary prospectus for an IPO, with an indicated price range that is materially above where we have been carrying it so far this year.
3) North Sea Energy, one of our three private oil and gas companies, is a partner in a well which came on stream in March flowing oil at 10,000 bpd.
4) One of our private companies is scheduled to merge with a public company, simultaneously with a financing being closed for the public company.
5) Colorep, a “clean-tech” company that has a technology which is disruptive to the dyeing industry, just closed on another $15 million at the same terms we were carrying it for December 31, with most of the $15 million coming from one of the largest and most sophisticated clean-tech investors in the US.

In a market where IPOs and RTOs are about as scarce as rain in a desert, I like to think these developments are an indication of the strength of the private companies that remain in the portfolios.

Thank you again for your patience and trust, and know that I am working hard to catalyze the value that I believe is being created by the companies in these portfolios. (Among my initiatives here are efforts to get more analyst coverage for our public companies, and efforts to get investment banks interested in working with my private companies.)

Best regards,

Hugh Cleland, CFA
Portfolio Manager

*Commissions, trailing commissions, management fees, performance fees and expenses all may be associated with investment funds. Please read the offering memorandum before investing. The indicated rates of return are the simple returns (YTD, 1 mo, 3 mo, 6 mo) or the historical annual compounded total returns (1 yr, 3 yr, 5 yr, and since inception). All returns are net of fees but do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. The Fund invests primarily in North American equities with a sector focus on technology, healthcare and resources. Geographic and sector allocations may, however, vary significantly over time. Investments made are primarily in small cap companies believed to be trading at a discount to their intrinsic value and which offer innovative products and services and a sustainable competitive advantage. The Fund normally follows a more concentrated investment approach where the manager may overweight selected core holdings and industry sectors in which the manager has particular conviction and/or specialized expertise. The Fund may engage in short selling and may also use specified derivatives, such as calls and puts, warrants, index futures and exchange traded funds. In addition, the Fund is permitted to hold private entities that are not included on any public markets or indices. This may result in portfolio weightings and investment performance being substantially different from that of the S&P/TSX Composite, TSX Venture, Dow Jones Industrial or other market indices.